

Consumption and Food Security Concerns

The drop in agricultural production during reform has coincided with a fall in consumption of some foodstuffs (table 2). The Western media commonly cite the decline in agricultural output and consumption in Russia and other (mainly NIS) transition economies as evidence that transition has worsened food security. Although transition has created a food security problem in various countries, the cause of the problem is not the drop in agricultural output, nor is it more generally insufficient availability of food supplies. In some countries, such as Russia, consumption of livestock products has declined less than production. Trade liberalization has resulted in growing imports of livestock products and other foodstuffs that are costly to produce domestically (the drop in Russian imports following the 1998 economic crisis notwithstanding).

As mentioned earlier, before reform, the transition economies had high per capita levels of consumption of most foodstuffs, including meat and other high-value livestock products, compared with even rich OECD nations. The best evidence of the adequate availability of foodstuffs during transition is that, even with food supplies and consumption being relatively high in the pre-reform period, consumption of staple foods, such as cereals and potatoes, has remained steady or even risen. Consumption of high-value livestock products has fallen during transition. However, per capita GDP in the CEECs and USSR before reform was at most only half the OECD average. Consumption of “luxury” livestock products has therefore declined during transition to levels more consistent with countries’ real income.

Reform has threatened food security in Russia and other transition economies because of problems involving *access* to food for segments of the population and certain regions within countries. As poverty increases because of inflation and rising unemployment, food becomes less affordable to a growing share of the population. Reports from Russia suggest that as much as 40 percent of the population might be living below the poverty level. In addition, within certain countries, such as Russia, Ukraine, and Uzbekistan, agricultural surplus-producing regions are restricting the outflow of foodstuffs. The most benign-possible reason for this behavior is that regional authorities wish to protect their own consumers by ensuring that local supplies are adequate. The most malign-possible

reason is corruption, as officials might be exploiting the regional price differences created by these restrictions to earn easy profits. Whatever the cause, these controls can prevent food-deficit regions from obtaining needed supplies.

During the 1990s, the United States and EU gave food aid to a number of transition economies, including Albania, Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Russia, and Tajikistan.¹⁶ The biggest recipient in recent years has been Russia, which in 1998-2000 received over 3 million metric tons (mmt) of commodities from the United States, worth about \$1.1 billion, and around 1.8 mmt from the EU, worth almost \$0.5 billion. Some of the U.S. aid was distributed by private voluntary organizations to the poor and elderly, while most of the U.S. and EU aid was targeted to food-deficit regions.¹⁷

These distribution policies reflect the wisdom of targeting food aid to needy social groups and regions. Such distribution will not only have the strongest possible humanitarian effect, but also limit any potential harm to agricultural producers in the recipient countries. Funneling food aid to the poor, who have reduced purchasing power, and to food-deficit regions, where food prices are high, will minimize the harmful

¹⁶ ERS has an ongoing research program that forecasts the food security needs of countries throughout the world. The transition economies included in the forecasting exercise are Armenia, Azerbaijan, Georgia, Kyrgyzstan, and Tajikistan (see ERS, 1999b). Key causes of food insecurity in these countries are political instability and economic uncertainty, such as repercussions from the economic crisis that hit Russia in August 1998 (which, among other effects, disrupted trade flows within the NIS region).

¹⁷ One of the motivating factors in the large aid to Russia was worry about the potential effects on food availability of Russia’s economic crisis of 1998. As discussed earlier in this report, the crisis substantially depreciated the Russian ruble against Western currencies. By raising the price of imported foodstuffs, the depreciation cut food imports in half. It has been a commonly held belief during the transition that Russia imports over half of its food. If true, the large drop in imports following ruble depreciation could by itself threaten food security. However, ERS has calculated that even before Russia’s crisis, imports accounted for only about a fifth of the country’s total food consumption. Poultry (mainly from the United States) was the only major foodstuff for which imports have been providing over half of domestic consumption. However, imports do account for over half of the food consumed in major cities such as Moscow and St. Petersburg. Extrapolating the experience of the big cities to the entire country might explain how the misconception developed concerning the importance of imports to total national food supplies (see Liefert and Liefert, 1999).

effect that food aid can have on agricultural producers by depressing prices.

One of the main effects of market reform in transition economies is the rise of consumer sovereignty; that is, the desires of consumers have replaced the preferences of planners as the dominant force in determining what goods (and quantities) are produced and consumed. The reform-driven drop in agricultural production and consumption is therefore part of the economy-wide reallocation of resources away from producing and consuming goods favored by planners and the political elite to goods favored by consumers. Although it might seem surprising to describe foodstuffs as goods more

favored by planners than consumers, when the prices of goods began to reflect the full cost of their production, consumers switched from buying high-cost livestock products to other goods and services. Reform has, in fact, created entirely new goods and, in particular, services which consumers were starved of under the old regime and to which demand is turning during reform. Much of the worry in both the transition economies and West about the consequences of declining food production and consumption during reform has been based on the misconception that foodstuffs by their very nature must be goods more favored by consumers than planners, such that consumers must on net inevitably suffer if reform reduces consumption.